Stop Making Plans Start Making Decisions

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DECISION MAKING

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In most companies, strategic planning isn't about making decisions. It's about documenting choices that have already been made, often haphazardly. Leading firms are rethinking their approach to strategy development so they can make more, better, and faster decisions.

STOP MAKING PLANS *START MAKING DECISIONS*

by Michael C. Mankins and Richard Steele

IS STRATEGIC PLANNING COMPLETELY USELESS? That was the question the CEO of a global manufacturer recently asked himself. Two years earlier, he had launched an ambitious overhaul of the company's planning process. The old approach, which required business-unit heads to make regular presentations to the firm's executive committee, had broken down entirely. The ExCom members – the CEO, COO, CFO, CTO, and head of HR – had grown tired of sitting through endless PowerPoint presentations that provided them few opportunities to challenge the business units' assumptions or influence their strategies. And the unit heads had complained that the ExCom reviews were long on exhortation but short on executable advice. Worse, the reviews led to very few worthwhile decisions.

The revamped process incorporated state-of-the-art thinking about strategic planning. To avoid information overload, it limited each business to 15 "high-impact" exhibits describing the unit's strategy. To ensure thoughtful discussions, it required that all presentations and supporting materials be distributed to the ExCom at least a week in advance. The review sessions themselves were restructured to allow ample time for give-and-take between the corporate team and the business-unit executives. And rather than force the unit heads to traipse off to headquarters for meetings, the ExCom agreed to spend an unprecedented six weeks each spring visiting all 22 units for daylong sessions. The intent was to make the strategy reviews longer, more focused, and more consequential.

It didn't work. After using the new process for two planning cycles, the CEO gathered feedback from the participants through an anonymous survey. To his dismay, the report contained a litany of complaints: "It takes too much time." "It's at too high a level." "It's disconnected from the way we run the business." And so on. Most damning of all, however, was the respondents' near-universal view that the new approach produced very few real decisions. The CEO was dumbfounded. How could the company's cutting-edge planning process still be so badly broken? More important, what should he do to make strategic planning drive more, better, and faster decisions?

Like this CEO, many executives have grown skeptical of strategic planning. Is it any wonder? Despite all the time and energy most companies put into strategic planning, the process is most often a barrier to good decision making, our research indicates. As a result, strategic planning doesn't really influence most companies' strategy.

In the following pages, we will demonstrate that the failure of most strategic planning is due to two factors: It is typically an annual process, and it is most often focused on individual business units. As such, the process is completely at odds with the way executives actually make important strategy decisions, which are neither constrained by the calendar nor defined by unit boundaries. Not surprisingly, then, senior executives routinely sidestep the planning process. They make the decisions that really shape their company's strategy and determine its future – decisions about mergers and acquisitions, product launches, corporate restructurings, and the like – outside the planning process, typically in an ad hoc fashion, without rigorous analysis or productive debate. Critical decisions are made incorrectly or not at all. More than anything else, this disconnect – between the way planning works and the way decision making happens – explains the frustration, if not outright antipathy, most executives feel toward strategic planning.

But companies can fix the process if they attack its root problems. A small number of forward-looking companies have thrown out their calendar-driven, business-unit-focused planning processes and replaced them with continuous, issues-focused decision making. By changing the timing and focus of strategic planning, they've also changed the nature of top management's discussions about strategy – from "review and approve" to "debate and decide," meaning that senior executives seriously think through every major decision and its implications for the company's performance and value. Indeed, these companies use the strategy development process to drive decision making. As a consequence, they make more than twice as many important strategic decisions each year as companies that follow the traditional planning model. (See the exhibit "Who Makes More Decisions?") These companies have stopped making plans and started making decisions.

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Where Planning Goes Wrong

In the fall of 2005, Marakon Associates, in collaboration with the Economist Intelligence Unit, surveyed senior executives from 156 large companies worldwide, all with sales of $1 billion or more (40% of them had revenues over $10 billion). We asked these executives how their companies developed long-range plans and how effectively they thought their planning processes drove strategic decisions.

The results of the survey confirmed what we have observed over many years of consulting: The timing and structure of strategic planning are obstacles to good decision making. Specifically, we found that companies with standard planning processes and practices make only 2.5 major strategic decisions each year, on average (by "major," we mean they have the potential to increase company profits by 10% or more over the long term). It's hard to imagine that with so few strategic decisions driving growth, these companies can keep moving forward and deliver the financial performance that investors expect.

Even worse, we suspect that the few decisions companies do reach are made in spite of the strategic planning process, not because of it. Indeed, the traditional planning model is so cumbersome and out of sync with the way executives want and need to make decisions that top managers all too often sidestep the process when making their biggest strategic choices.

With the big decisions being made outside the planning process, strategic planning becomes merely a codification of judgments top management has already made, rather than a vehicle for identifying and debating the crit-

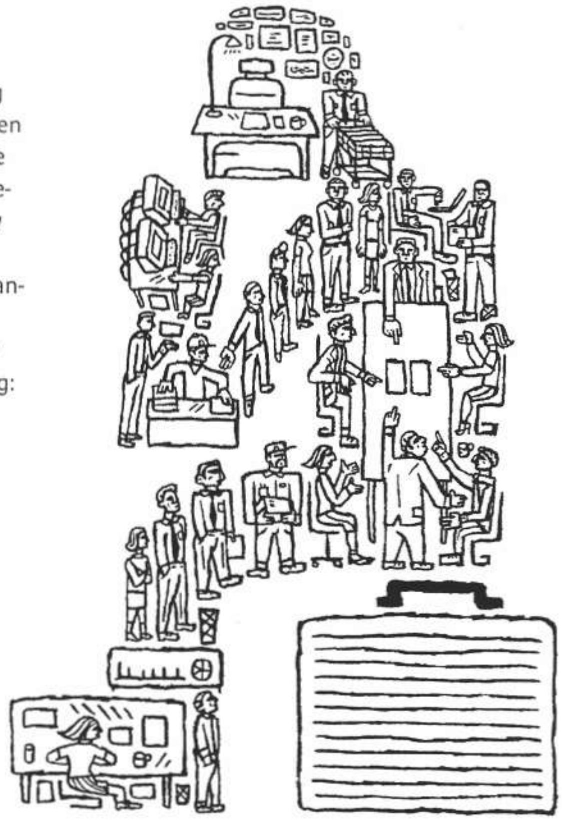
Who Makes More Decisions?

Companies see a dramatic increase in the quality of their decision making once they abandon the traditional planning model, which is calendar driven and focused on the business units. In our survey, the companies that broke most completely with the past made more than twice as many strategic decisions each year as companies wedded to tradition. What's more, the new structure of the planning process ensures that the decisions are probably the best that could have been made, given the information available to managers at the time.

Here are the average numbers of major strategic decisions reached per year in companies that take the following approaches to strategic planning:

Annual review focused on business units	**Annual review** focused on issues	**Continuous review** focused on business units	**Continuous review** focused on issues
2.5 DECISIONS PER YEAR	**3.5** DECISIONS PER YEAR	**4.1** DECISIONS PER YEAR	**6.1** DECISIONS PER YEAR

Source: Marakon Associates and the Economist Intelligence Unit



ical decisions that the company needs to make to produce superior performance. Over time, managers begin to question the value of strategic planning, withdraw from it, and come to rely on other processes for setting company strategy.

The calendar effect. At 66% of the companies in our survey, planning is a periodic event, often conducted as a precursor to the yearly budgeting and capital-approval processes. In fact, linking strategic planning to these other management processes is often cited as a best practice. But forcing strategic planning into an annual cycle risks making it irrelevant to executives, who must make many important decisions throughout the year.

There are two major drawbacks to such a rigid schedule. The first might be called the *time* problem. A once-a-year planning schedule simply does not give executives sufficient time to address the issues that most affect performance. According to our survey, companies that follow an annual planning calendar devote less than nine weeks per year to strategy development. That's barely two months to collect relevant facts, set strategic priorities, weigh competing alternatives, and make important strategic choices. Many issues – particularly those spanning multiple businesses, crossing geographic boundaries, or involving entire value chains – cannot be resolved effectively in such a short time. It took Boeing, for example, almost two years to decide to outsource major activities such as wing manufacturing.

Constrained by the planning calendar, corporate executives face two choices: They can either not address these complex issues – in effect, throwing them in the "too-hard" bucket – or they can address them through some process other than strategic planning. In both cases, strategic planning is marginalized and separated from strategic decision making.

Then there's the *timing* problem. Even when executives allot sufficient time in strategy development to address tough issues, the timing of the process can create problems. At most companies, strategic planning is a batch process in which managers analyze market and competitor information, identify threats and opportunities, and then define a multiyear plan. But in the real world, managers make strategic decisions continuously, often motivated by an immediate need for action (or reaction). When a new competitor enters a market, for instance, or a rival introduces a new technology, executives must act quickly and decisively to safeguard the company's performance. But very few companies (less than 10%, according to our survey) have any sort of rigorous or disciplined process for responding to changes in the external environment. Instead, managers rely on ad hoc processes to correct course or make opportunistic moves. Once again, strategic planning is sidelined, and executives risk making poor decisions that have not been carefully thought through.

M&A decisions provide a particularly egregious example of the timing problem. Acquisition opportunities tend to emerge spontaneously, the result of changes in management at a target company, the actions of a competitor, or some other unpredictable event. Faced with a promising opportunity and limited time in which to act, executives can't wait until the opportunity is evaluated as part of the next annual planning cycle, so they assess the deal and make a quick decision. But because there's often no proper review process, the softer customer- and people-related issues so critical to effective integration of an acquired company can get shortchanged. It is no coincidence that failure to plan for integration is often cited as the primary cause of deal failure.

The business-unit effect. The organizational focus of the typical planning process compounds its calendar effects–or, perhaps more aptly, defects. Two-thirds of the executives we surveyed indicated that strategic planning at their companies is conducted business by business – that is, it is focused on units or groups of units. But 70% of the senior executives who responded to our survey stated they make decisions issue by issue. For example, should we enter China? Should we outsource manufacturing? Should we acquire our distributor? Given this mismatch between the way planning is organized and the way big decisions are made, it's hardly surprising that, once again, corporate leaders look elsewhere for guidance and inspiration. In fact, only 11% of the executives we surveyed believed strongly that planning was worth the effort.

The organizational focus of traditional strategic planning also creates distance, even antagonism, between corporate executives and business-unit managers. Consider, for example, the way most companies conduct strategy reviews – as formal meetings between senior managers and the heads of each business unit. While these reviews are intended to produce a fact-based dialogue, they often amount to little more than business tourism. The executive committee flies in for a day, sees the sights, meets the natives, and flies out. The business unit, for its part, puts in a lot of work preparing for this royal visit and is keen to make it smooth and trouble free. The unit hopes to escape with few unanswered questions and an approved plan. Accordingly, local managers control the flow of information upward, and senior managers are presented only with information that shows each unit in the best possible light. Opportunities are highlighted; threats are downplayed or omitted.

Even if there's no subterfuge, senior corporate managers still have trouble engaging in constructive dialogue and debate because of what might be called information asymmetry. They just don't have the information they need to be helpful in guiding business units. So when they're presented with a strategic plan that's too good to be believed, they have only two real options: either reject it – a move that's all but unheard-of at most large companies – or play along and impose stretch targets to secure at least the promise that the unit will improve performance. In both cases, the review does little to drive decisions on issues. It's hardly surprising that only 13% of the executives we surveyed felt that top managers were effectively engaged in all aspects of strategy development at their companies – from target setting to debating alternatives to approving strategies and allocating resources.

Decision-Focused Strategic Planning

Strategic planning can't have impact if it doesn't drive decision making. And it can't drive decision making as long as it remains focused on individual business units and limited by the calendar. Over the past several years, we have observed that many of the best-performing companies have abandoned the traditional approach and are focusing explicitly on reaching decisions through the continuous identification and systematic resolution of strategic issues. (The sidebar "Continuous, Decision-Oriented Planning" presents a detailed example of the issues-oriented approach.) Although these companies have found different specific solutions, all have made essentially the same fundamental changes to their planning and strategy development processes in order to produce more, better, and faster decisions.

They separate – but integrate – decision making and plan making. First and most important, a company must take decisions out of the traditional planning process and create a different, parallel process for developing strategy that helps executives identify the decisions they *need to make* to create more shareholder value over time. The output of this new process isn't a plan at all – it's a set of

Strategy reviews often amount to little more than business tourism. The executive committee flies in for a day, sees the sights, meets the natives, and flies out.

The Disconnect Between Planning and Decision Making

How Executives Plan

66% PERIODICALLY
Percentage of surveyed executives saying their companies conduct strategic planning only at prescribed times

67% UNIT BY UNIT
Percentage saying planning is done unit by unit

How Executives Decide

100% CONTINUOUSLY
Percentage of executives saying strategic decisions are made without regard to the calendar

70% ISSUE BY ISSUE
Percentage saying decisions are made issue by issue

NO WONDER ONLY **11%** OF EXECUTIVES ARE HIGHLY SATISFIED THAT STRATEGIC PLANNING IS WORTH THE EFFORT.

concrete decisions that management can codify into future business plans through the existing planning process, which remains in place. Identifying and making decisions is distinct from creating, monitoring, and updating a strategic plan, and the two sets of tasks require very different, but integrated, processes.

Boeing Commercial Airplanes (BCA) is a case in point. This business unit, Boeing's largest, has had a long-range business plan (LRBP) process for many years. The protracted cycles of commercial aircraft production require the unit's CEO, Alan Mulally, and his leadership team to take a long-term view of the business. Accordingly, the unit's LRBP contains a ten-year financial forecast, including projected revenues, backlogs, operating margins, and capital investments. BCA's leadership team reviews the business plan weekly to track the division's performance relative to the plan and to keep the organization focused on execution.

The weekly reviews were invaluable as a performance-monitoring tool at BCA, but they were not particularly effective at bringing new issues to the surface or driving strategic decision making. So in 2001, the unit's leadership team introduced a Strategy Integration Process focused on uncovering and addressing the business's most important strategic issues (such as determining the best go-to-market strategy for the business, driving the evolution of BCA's product strategy, or fueling growth in services). The team assigned to this process holds strategy integration meetings every Monday to track BCA's progress in resolving these long-term issues. Once a specific course of action is agreed upon and approved by BCA's leadership team, the long-range business plan is updated at the next weekly review to reflect the projected change in financial performance.

The time invested in the new decision-making process is more than compensated for by the time saved in the LRBP process, which is now solely focused on strategy execution. The company gets the best of both worlds–disciplined decision making and superior execution. BCA has maintained the value of the LRBP as an execution tool even as it has increased the quality and quantity of important decisions. Managers believe that the new process is at least partially responsible for the sharp turnaround in Boeing's performance since 2001.

They focus on a few key themes. High-performing companies typically focus their strategy discussions on a limited number of important issues or themes, many of which span multiple businesses. Moving away from a business-by-business planning model in this way has proved particularly helpful for large, complex organizations, where strategy discussions can quickly get bogged down as each division manager attempts to cover every aspect of the unit's strategy. Business-unit managers should remain involved in corporate-level strategy planning that affects their units. But a focus on issues rather than business units better aligns strategy development with decision making and investment.

Consider Microsoft. The world's leading software maker is a highly matrixed organization. No strategy can be effectively executed at the company without careful coordination across multiple functions and across two or more of Microsoft's seven business units, or, as executives refer to them, "P&Ls"–Client; Server and Tools; Information Worker; MSN; Microsoft Business Solutions; Mobile and Embedded Devices; and Home and Entertainment. In late 2004, faced with a perceived shortage of good investment ideas, CEO Steve Ballmer asked Robert Uhlaner, Microsoft's corporate vice president of strategy, planning, and analysis, to devise a new strategic planning process for the company. Uhlaner put in place a Growth and Performance Planning Process that starts with agreement by Ballmer's leadership team on a set of strategic themes–major issues like PC market growth, the entertainment market, and security–that cross business-unit boundaries. These themes not only frame the dialogue for Microsoft's annual strategy review, they also guide the units in fleshing out investment alternatives to fuel the company's growth. Dialogues between the P&L leaders and Ballmer's team focus on what the company can do to address each strategic theme, rather than on individual unit strategies. The early results of this new process are promising. "You have to be careful what you wish for," Uhlaner says. "Our new process has surfaced countless new opportunities for growth. We no longer worry about a dearth of investment ideas, but how best to fund them."

Like Microsoft, Diageo North America – a division of the international beer, wine, and spirits marketer – has recently changed the way it conducts strategic planning to allocate resources across its diverse portfolio. Diageo historically focused its planning efforts on individual brands. Brand managers were allowed to make the case for additional investment, no matter what the size of the brand or its strategic role in the portfolio. As a result, resource allocation was bedeviled by endless negotiations between the brands and corporate management. This political wrangling made it extremely difficult for Diageo's senior managers to establish a consistent approach to growth, because a lack of transparency prevented them from discerning, from the many requests for additional funding, which brands really deserved more resources and which did not.

Starting in 2001, Diageo overhauled its approach to strategy development. A crucial change was to focus planning on the factors that the company believed would most drive market growth – for example, an increase in the U.S. Hispanic population. By modeling the impact of these factors on the brand portfolio, Diageo has been better able to match its resources with the brands that have the most growth potential so that it can specify the strategies and investments each brand manager should develop, says Jim Moseley, senior vice president of consumer planning and research for Diageo North America. For example, the division now identifies certain brands for growth and earmarks specific resources for investment in these units. This focused approach has enabled the company to shorten the brand planning process and reduce the time spent on negotiations between the brands and division management. It has also given senior management greater confidence in each brand's ability to contribute to Diageo's growth.

They make strategy development continuous. Effective strategy planners spread strategy reviews throughout the year rather than squeeze them into a two- or three-month window. This allows senior executives to focus on one issue at a time until they reach a decision or set of decisions. Moreover, managers can add issues to the agenda as market and competitive conditions change, so there's no need for ad hoc processes. Senior executives can thus rely on a single strategic planning process – or, perhaps more aptly, a single strategic decision-making model – to drive decision making across the company.

Textron, a $10 billion multi-industry company, has implemented a new, continuous strategy-development process built around a prioritized "decision agenda" comprising the company's most important issues and opportunities. Until 2004, Textron had a fairly traditional strategic planning process. Each spring, the company's operating units – businesses as diverse as Bell Helicopter, E-Z-Go golf cars, and Jacobsen turf maintenance equipment – would develop a five-year strategic plan based on standard templates. Unit managers would then review their strategic plans with Textron's management committee (the company's top five executives) during daylong sessions at each unit. Once the strategy reviews were com-

Traditional Planning

Companies that follow the traditional strategic planning model develop a strategy plan for each business unit at some point during the year. A cross-functional team dedicates less than nine weeks to developing the unit's plan. The executive committee reviews each plan – typically in daylong, on-site meetings – and rubber-stamps the results. The plans are consolidated to produce a company-wide strategic plan for review by the board of directors.

Once the strategic-planning cycle is complete, the units dedicate another eight to nine weeks to budgeting and capital planning (in most companies, these processes are not explicitly linked to strategic planning).

The executive committee then holds another round of meetings with each of the business units to negotiate performance targets, resource commitments, and (in many cases) compensation for managers.

The results: an approved but potentially unrealistic strategic plan for each business unit and a separate budget for each unit that is decoupled from the unit's strategic plan.

plete, the units incorporated the results, as best they could, into their annual operating plans and capital budgets.

In June 2004, dissatisfied with the quality and pace of the decision making that resulted from the company's strategy reviews, CEO Lewis Campbell asked Stuart Grief, Textron's vice president for strategy and business development, to rethink the company's strategic planning process. After carefully reviewing the company's practices and gathering feedback from its 30 top executives, Grief and his team designed a new Textron Strategy Process.

There were two important changes. First, rather than concentrate all of the operating-unit strategy reviews in the second quarter of each year, the company now spreads strategy dialogues throughout the year–two to three units are reviewed per quarter. Second, rather than organize the management committee dialogues around business-unit plans, Textron now holds continuous reviews that are designed to address each strategic issue on the company's decision agenda. Both changes have enabled Textron's management committee to be much more effectively engaged in business-unit strategy development. The changes have also ensured that there's a forum in which cross-unit issues can be raised and addressed by top management, with input from relevant business-unit managers. The process has significantly increased the number of strategic decisions the company makes each year. As a result,

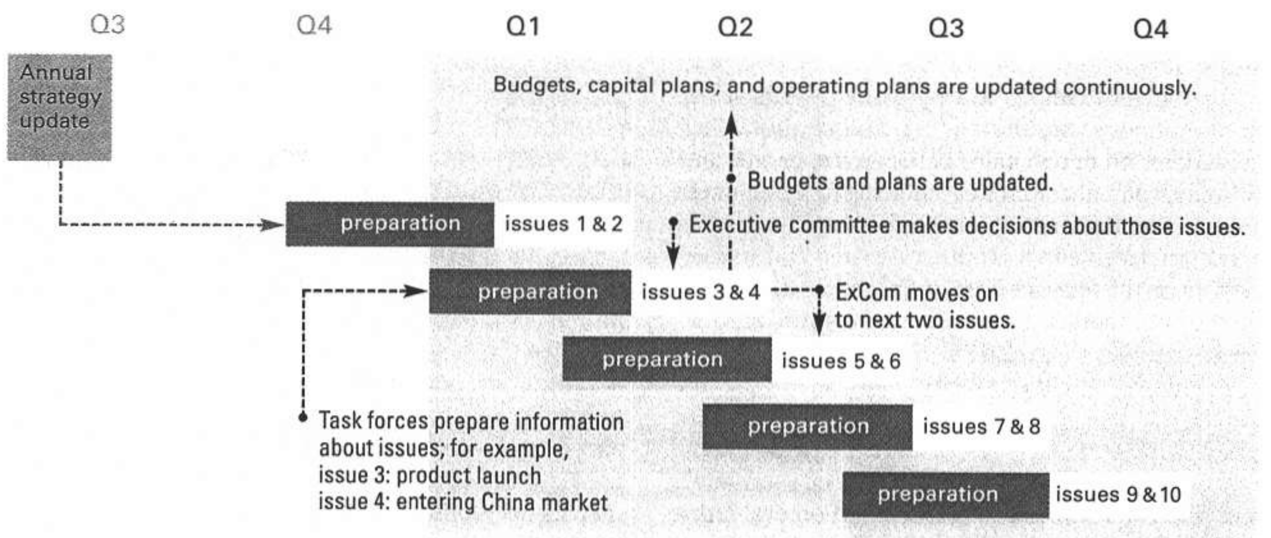
Continuous, Decision-Oriented Planning

Once the company as a whole has identified its most important strategic priorities (typically in an annual strategy update), executive committee dialogues, spread throughout the year, are set up to reach decisions on as many issues as possible. Since issues frequently span multiple business units, task forces are established to prepare the strategic and financial information that's needed to uncover and evaluate strategy alternatives for each issue. Preparation time may exceed nine weeks. The executive committee engages in two dialogues for each issue at three to four hours each.

The first dialogue focuses on reaching agreement on the facts surrounding the issue and on a set of viable alternatives. The second focuses on the evaluation of those alternatives and the selection of the best course of action. Once an issue is resolved, a new one is added to the agenda. Critical issues can be inserted into the planning process at any time as market and competitive conditions change.

Once a decision has been reached, the budgets and capital plans for the affected business units are updated to reflect the selected option. Consequently, the strategic-planning process and the capital and budgeting processes are integrated. This significantly reduces the need for lengthy negotiations between the executive committee and unit management over the budget and capital plan.

The results: a concrete plan for addressing each key issue; for each business unit, a continuously updated budget and capital plan that is linked directly to the resolution of critical strategic issues; and more, faster, better decisions per year.



Textron has gone from being an also-ran among its multi-industrial peers to a top-quartile performer over the past 18 months.

John Cullivan, the director of strategy at Cardinal Health, one of the world's leading health-care products and services companies, reports similar benefits from shifting to a continuous planning model. "Continuous decision making is tough to establish because it requires the reallocation of management time at the top levels of the company," he says. "But the process has enabled us to get sharper focus on the short-term performance of our vertical businesses and make faster progress on our longer-term priorities, some of which are horizontal opportunities that cut across businesses and thus are difficult to manage."

To facilitate continuous strategic decision making, Cardinal has made a series of important changes to its traditional planning process. At the corporate level, for example, the company has put in place a rolling six-month agenda for its executive committee dialogues, a practice that allows everyone inside Cardinal to know what issues management is working on and when decisions will be reached. Similar decision agendas are used at the business-unit and functional levels, ensuring that common standards are applied to all important decisions at the company. And to support continuous decision making at Cardinal, the company has trained "black belts" in new analytical tools and processes and deployed them throughout the organization. This provides each of the company's businesses and functions with the resources needed to address strategic priorities that emerge over time.

They structure strategy reviews to produce real decisions. The most common obstacles to decision making at large companies are disagreements among executives over past decisions, current alternatives, and even the facts presented to support strategic plans. Leading companies structure their strategy review sessions to overcome these problems.

At Textron, for example, strategic-issue reviews are organized around "facts, alternatives, and choices." Each issue is addressed in two half-day sessions with the company's management committee, allowing for eight to ten issues to be resolved throughout the year. In the first session, the management committee debates and reaches agreement on the relevant facts – information on the profitability of key markets, the actions of competitors, the purchase behavior of customers, and so on – and a limited set of viable strategy alternatives. The purpose of this first meeting is not to reach agreement on a specific course of action; rather, the meeting ensures that the group has the best possible information and a robust set of alternatives to consider. The second session is focused on evaluating these alternatives from a strategic and financial perspective and selecting the best course of action. By separating the dialogue around facts and alternatives from the debate over choices, Textron's management committee avoids many of the bottlenecks that plague strategic decision making at most companies and reaches many more decisions than it otherwise would.

Like Textron, Cadbury Schweppes has changed the structure of its strategy dialogues to focus top managers more explicitly on decision making. In 2002, after acquiring and integrating gum-maker Adams – a move that significantly expanded Cadbury's product and geographic reach – the company realized it needed to rethink how it was conducting dialogues about strategy between the corporate center and the businesses. The company made two important changes. First, strategy dialogues were redesigned to incorporate a standard set of facts and metrics about consumers, customers, and competitors. This information helped get critical commercial choices in front of top managers, so that the choices were no longer buried in the business units. Second, senior executives' time was reallocated so they could pay more attention to markets that were crucial to realizing Cadbury's ten-year vision and to making important decisions.

Cadbury's top team now spends one full week per year in each of the countries that are most critical to driving the company's performance, so that important decisions can be informed by direct observation as well as through indirect analysis. Strategy dialogues are now based on a much deeper understanding of the markets. Cadbury's strategic reviews no longer merely consist of reviews of and approval of a strategic plan, and they produce many more important decisions.

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Done right, strategic planning can have an enormous impact on a company's performance and long-term value. By creating a planning process that enables managers to discover great numbers of hidden strategic issues and make more decisions, companies will open the door to many more opportunities for long-term growth and profitability. By embracing decision-focused planning, companies will almost certainly find that the quantity and quality of their decisions will improve. And – no coincidence – they will discover an improvement in the quality of the dialogue between senior corporate managers and unit managers. Corporate executives will gain a better understanding of the challenges their companies face, and unit managers will benefit fully from the experience and insights of the company's leaders. As Mark Reckitt, a director of group strategy at Cadbury Schweppes, puts it: "Continuous, decision-focused strategic planning has helped our top management team to streamline its agenda and work with business units and functional management to make far better business-strategy and commercial decisions."

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